

Operations

Our consolidated financial statements combine the industrial manufacturing, services and media businesses of General Electric Company (GE) with the financial services businesses of General Electric Capital Services, Inc. (GECS or financial services).

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the U.S. Securities and Exchange Commission (SEC) rules. For such measures, we have provided supplemental explanations and reconciliations in the Supplemental Information section.

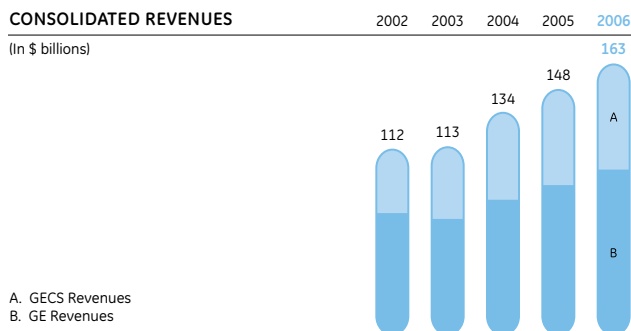
We present Management's Discussion of Operations in five parts: Overview of Our Earnings from 2004 through 2006, Global Risk Management, Segment Operations, Global Operations and Environmental Matters.

Overview of Our Earnings from 2004 through 2006

Our results over the last several years reflect the global economic environment in which we operate. Global markets have been, and remain, strong. Orders for products and services continue to increase. Emerging markets continue to grow and to offer us new opportunities. Abundant global liquidity is providing us capital market opportunities, but reducing risk spreads. In these highly competitive markets, we have, over the last three years, achieved organic revenue growth averaging 8% and significantly accelerated our globalization. Revenues from our operations located outside the United States plus all U.S. exports (global revenues) grew by more than 60% over this period. We also experienced a weaker U.S. dollar, escalating energy costs and higher fossil fuel-related raw material prices. Our debt continues to receive the highest ratings of the major rating agencies. As the following pages show, our diversification and risk management strategies enabled us to continue to grow revenues and earnings to record levels during this challenging time.

Of our six segments, Infrastructure (28% and 34% of consolidated three-year revenues and total segment profit, respectively) was one of the most significantly affected by the recent economic environment. During these years we invested in other lines of power generation, such as wind power, and developed product services. As a result, Energy revenues have grown significantly over these years and the business is positioned well for continued growth in 2007 and beyond. We also continued to invest in market-leading technology and services at Aviation, Water and Transportation. At December 31, 2006, we had 1,419 commercial aircraft, of which all but one were on lease, and we held \$14.0 billion (list price) of multiple-year orders for various Boeing, Airbus and other aircraft, including 63 aircraft (\$4.3 billion list price) scheduled for delivery in 2007, all under agreement to commence operations with commercial airline customers. Product services and sales of our Evolution Series locomotives continue to be strong.

Commercial Finance and GE Money, formerly Consumer Finance, (together, 27% and 32% of consolidated three-year revenues and total segment profit, respectively) are large, profitable growth businesses in which we continue to invest with confidence. In a competitive environment, these businesses grew earnings by a combined \$1.2 billion and \$1.3 billion in 2006 and 2005, respectively. Commercial Finance and GE Money have delivered strong results through solid core growth, disciplined risk management and successful acquisitions. The most significant acquisitions affecting Commercial Finance and GE Money results in 2006 were the custom fleet business of National Australia Bank Ltd.; Antares Capital Corp.; the Transportation Financial Services Group of CitiCapital; and joint ventures with Garanti Bank and Hyundai Card Company. These acquisitions collectively contributed \$0.9 billion and \$0.3 billion to 2006 revenues and net earnings, respectively.



We have achieved strong growth in Healthcare (10% and 12% of consolidated three-year revenues and total segment profit, respectively) with a combination of organic growth and strategic acquisitions. Healthcare realized benefits from the acquisitions of IDX Systems Corporation in 2006, Amersham plc (Amersham) in 2004 and Instrumentarium in 2003, expanding the breadth of our product and service offerings to the healthcare industry, and positioning us well for continued strong growth.

NBC Universal (10% and 12% of consolidated three-year revenues and total segment profit, respectively) has developed into a diversified world-class media company over the last several years, largely through the combination of NBC with Vivendi Universal Entertainment LLLP (VUE) in 2004. Nevertheless, the technology and business model for the entertainment media industry continues to evolve, and NBC Universal's recent results were somewhat disappointing. In 2006, we made significant progress in our turnaround efforts and believe that NBC Universal is well positioned to compete in this challenging environment.

Industrial (22% and 10% of consolidated three-year revenues and total segment profit, respectively) is particularly sensitive to economic conditions. Higher capacity, in combination with declining or weak volume growth in many of the industries in which it operates, resulted in increased competitive price pressures. The Consumer & Industrial business continued to grow through product innovation and its focus on high-end appliances.

The Plastics business was hit particularly hard during these three years because of additional pressure from significant inflation in natural gas and certain raw materials such as benzene. As a result of these factors and the 2006 sales of GE Supply and Advanced Materials, we do not expect this segment to experience significant growth in 2007.

Overall, acquisitions contributed \$3.9 billion, \$9.6 billion and \$12.3 billion to consolidated revenues in 2006, 2005 and 2004, respectively. Our consolidated earnings in 2006, 2005 and 2004 included approximately \$0.5 billion, \$0.9 billion and \$1.2 billion, respectively, from acquired businesses. We integrate acquisitions as quickly as possible. Only revenues and earnings from the date we complete the acquisition through the end of the fourth following quarter are attributed to such businesses. Dispositions also affected our ongoing results through lower revenues of \$2.6 billion, \$2.0 billion and \$3.0 billion in 2006, 2005 and 2004, respectively. This resulted in lower earnings of \$0.1 billion in both 2006 and 2005 and \$0.5 billion in 2004.

Significant matters relating to our Statement of Earnings are explained below.

INSURANCE EXIT. In 2006, we substantially completed our planned exit of the insurance businesses through the sale of the property and casualty insurance and reinsurance businesses and the European life and health operations of GE Insurance Solutions Corporation (GE Insurance Solutions) and the sale of GE Life, our U.K.-based life insurance operation, to Swiss Reinsurance Company (Swiss Re). Also during 2006, we completed the sale of our remaining 18% investment in Genworth Financial, Inc. (Genworth), our formerly wholly-owned subsidiary that conducted most of our consumer insurance business, including life and mortgage operations, through a secondary public offering.

We reported the insurance businesses described above as discontinued operations for all periods presented. Unless otherwise indicated, we refer to captions such as revenues and earnings from continuing operations simply as "revenues" and "earnings" throughout this Management's Discussion and Analysis. Similarly, discussion of other matters in our consolidated financial statements relates to continuing operations unless otherwise indicated.

WE DECLARED \$10.7 BILLION IN DIVIDENDS IN 2006. Per-share dividends of \$1.03 were up 13% from 2005, following an 11% increase from the preceding year. In December 2006, our Board of Directors raised our quarterly dividend 12% to \$0.28 per share. We have rewarded our shareowners with over 100 consecutive years of dividends, with 31 consecutive years of dividend growth.

Except as otherwise noted, the analysis in the remainder of this section presents the results of GE (with GECS included on a one-line basis) and GECS. See the Segment Operations section for a more detailed discussion of the businesses within GE and GECS.

GE SALES OF PRODUCT SERVICES were \$30.3 billion in 2006, a 12% increase over 2005. Increases in product services in 2006 and 2005 were widespread, led by continued strong growth at Infrastructure and Healthcare. Operating profit from product services was approximately \$8.3 billion in 2006, up 19% from 2005, reflecting ongoing improvements at Infrastructure and Healthcare.

POSTRETIREMENT BENEFIT PLANS reduced pre-tax earnings by \$2.3 billion, \$1.7 billion and \$1.2 billion in 2006, 2005 and 2004, respectively. Costs of our principal pension plans increased over the last three years primarily because of the effects of:

- Prior years' investment losses which reduced pre-tax earnings from the preceding year by \$0.5 billion, \$0.5 billion and \$0.6 billion in 2006, 2005 and 2004, respectively, and
- Lowering pension discount rates which reduced pre-tax earnings from the preceding year by \$0.1 billion, \$0.1 billion and \$0.4 billion in 2006, 2005 and 2004, respectively.

Considering current and expected asset allocations, as well as historical and expected returns on various categories of assets in which our plans are invested, we have assumed that long-term returns on our principal pension plan assets would be 8.5% throughout this period and in 2007. U.S. generally accepted accounting principles provide for recognition of differences between assumed and actual returns over a period no longer than the average future service of employees.

We expect costs of our principal pension plans to stabilize in 2007. However, our labor agreements with various U.S. unions expire in June 2007, and we will be engaged in negotiations to attain new agreements. While results of the 2007 union negotiations cannot be predicted, our recent past negotiations have resulted in agreements that increased costs.

Our principal pension plans had a surplus of \$11.5 billion at December 31, 2006. We will not make any contributions to the GE Pension Plan in 2007. To the best of our ability to forecast the next five years, we do not anticipate making contributions to that plan as long as expected investment returns are achieved. At December 31, 2006, the fair value of assets for our other pension plans was \$2.6 billion less than their respective projected benefit obligations. We expect to contribute \$0.6 billion to these plans in 2007, compared with \$0.5 billion and \$0.4 billion in 2006 and 2005, respectively.

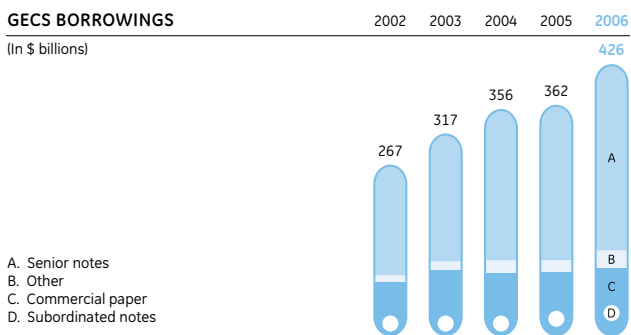
The funded status of our postretirement benefit plans and future effects on operating results depend on economic conditions and investment performance. See notes 6 and 7 for additional information about funded status, components of earnings effects and actuarial assumptions. See the Critical Accounting Estimates section for discussion of pension assumptions.

GE OTHER COSTS AND EXPENSES are selling, general and administrative expenses. These costs were 14.0%, 14.7% and 14.6% of total GE sales in 2006, 2005 and 2004, respectively.

GE OPERATING PROFIT is earnings from continuing operations before interest and other financial charges, and income taxes. GE operating profit excluding the effects of pension costs was \$15.5 billion in 2006, up from \$13.6 billion in 2005 and \$11.3 billion in 2004 (15.2%, 14.8% and 13.5% of GE industrial revenues in 2006, 2005 and 2004, respectively). The increase in 2006 operating profit reflected higher productivity (principally Industrial and Healthcare), volume (Infrastructure) and prices (Infrastructure), partially offset by higher material and other costs across all segments. The increase in 2005 operating profit reflected higher productivity (principally Healthcare and Infrastructure), volume (Infrastructure and NBC Universal) and prices (Industrial), partially offset by higher material and other costs across all segments.

INTEREST ON BORROWINGS AND OTHER FINANCIAL CHARGES

amounted to \$19.3 billion, \$15.1 billion and \$11.6 billion in 2006, 2005 and 2004, respectively. Substantially all of our borrowings are through GECS, where interest expense was \$18.1 billion, \$14.2 billion and \$11.1 billion in 2006, 2005 and 2004, respectively. Changes over the three-year period reflected increased average borrowings and increased interest rates. GECS average borrowings were \$389.0 billion, \$346.1 billion and \$319.2 billion in 2006, 2005 and 2004, respectively. GECS average composite effective interest rate was 4.7% in 2006, compared with 4.2% in 2005 and 3.5% in 2004. Proceeds of these borrowings were used in part to finance asset growth and acquisitions. In 2006, GECS average assets of \$514.5 billion were 9% higher than in 2005, which in turn were 7% higher than in 2004. See the Financial Resources and Liquidity section for a discussion of interest rate risk management.



INCOME TAXES are a significant cost. As a global commercial enterprise, our tax rates are affected by many factors, including our global mix of earnings, legislation, acquisitions, dispositions and the tax characteristics of our income. Our tax returns are routinely audited and settlements of issues raised in these audits sometimes affect our tax provisions.

Income taxes on consolidated earnings from continuing operations were 16.1% in 2006, compared with 17.8% in 2005 and 18.2% in 2004. Our consolidated income tax rate decreased from 2005 to 2006 as growth in lower-taxed earnings from global operations, including one-time tax benefits from non-U.S. tax net operating losses and the non-U.S. gain on disposition of the

Advanced Materials business, exceeded 2005 tax benefits from a reorganization of our aircraft leasing business, a repatriation of non-U.S. earnings at a reduced rate of U.S. tax and favorable settlements with tax authorities.

Our consolidated income tax rate was essentially unchanged in 2005 from 2004 because the 2005 tax benefits from a reorganization of our aircraft leasing business and from the growth in lower-taxed global operations were about the same as the 2004 tax benefits from favorable U.S. Internal Revenue Service (IRS) settlements, the NBC Universal combination, the 2004 reorganization of our aircraft leasing business and a lower tax rate on the sale of a portion of Genpact, our business process outsourcing operation.

A more detailed analysis of differences between the U.S. federal statutory rate and the consolidated rate, as well as other information about our income tax provisions, is provided in note 8. The nature of business activities and associated income taxes differ for GE and for GECS and a separate analysis of each is presented in the paragraphs that follow.

Because GE tax expense does not include taxes on GECS earnings, the GE effective tax rate is best analyzed in relation to GE earnings excluding GECS. GE pre-tax earnings from continuing operations excluding comparable GECS earnings were \$12.8 billion, \$11.9 billion and \$10.4 billion for 2006, 2005 and 2004, respectively. On this basis, GE's effective tax rate was 20.2% in 2006, 23.1% in 2005 and 19.0% in 2004.

The decrease in the 2006 rate from 2005 was primarily attributable to growth in lower-taxed earnings from global operations, including one-time tax benefits from non-U.S. net operating losses and the non-U.S. gain on the disposition of the Advanced Materials business. These benefits, which decreased the GE rate by 4.5 percentage points, are included in note 8 in the line "Tax on global activities including exports." Partially offsetting these items was the lack of a counterpart to the 2005 repatriation of non-U.S. earnings at a reduced U.S. tax rate, discussed below (0.9 percentage points) and a decrease in benefits from favorable audit resolutions with tax authorities (0.8 percentage points). The effects of 2006 favorable audit resolutions are reflected in note 8 in the lines "All other — net" (0.8 percentage points) and "Tax on global activities including exports" (0.7 percentage points).

The increase in the 2005 rate over the 2004 rate was primarily attributable to the lack of current-year counterparts to the 2004 settlements with the IRS and 2004 tax benefits associated with the NBC Universal combination, both discussed below, that together reduced the 2004 rate by 7.2 percentage points. Partially offsetting this increase were the favorable effects of a number of audit resolutions with taxing authorities and our 2005 repatriation of non-U.S. earnings at the reduced U.S. tax rate provided in 2004 legislation (together representing a 3.2 percentage point reduction of the GE tax rate). These 2005 tax benefits are reflected in note 8 in the lines "All other — net" (1.6 percentage points) and "Tax on global activities including exports" (1.6 percentage points).

The 2004 GE rate reflects two items that decreased the rate by 7.2 percentage points — settling several issues with the IRS for the years 1985 through 1999 and tax benefits associated with the NBC Universal combination. As part of the IRS settlements,

we closed two significant issues: the 1997 tax-free exchange of the Lockheed Martin convertible preferred stock we received on the disposition of our Aerospace business in 1993, and a 1998 tax loss on the sale of a Puerto Rican subsidiary. The tax portion of these settlements is included in the line "IRS settlements of Lockheed Martin tax-free exchange/Puerto Rico subsidiary loss" in note 8. The tax benefits associated with the NBC Universal combination are included in the line "All other — net" in note 8.

GECS effective tax rate was 11.6% in 2006, compared with 11.9% in 2005 and 17.4% in 2004. The 2006 GECS rate was about the same as 2005 as growth in lower-taxed earnings from global operations was largely offset by a smaller benefit on the reorganization, discussed below, of our aircraft leasing business. The increased benefits from lower-taxed earnings from global operations (2.4 percentage points) and the lower benefits from the reorganization of our aircraft leasing business (1.9 percentage points) are included in the line "Tax on global activities including exports" in note 8.

The 2005 GECS rate reflects the net benefits, discussed below, of a reorganization of our aircraft leasing business and an increase in lower-taxed earnings from global operations. Together, these items more than account for the 7.2 percentage point decrease in rate from 2004 reflected in the line "Tax on global activities including exports" in note 8. Partially offsetting these benefits was the nonrecurrence of the benefits from 2004 favorable settlements with the IRS and the low-taxed disposition of a majority interest in Genpact. The lack of counterparts to these items increased the 2005 GECS tax rate by 1.7 percentage points. The favorable settlements with the IRS are included in the line "All other — net" and the benefit of the low-taxed disposition of a majority interest in Genpact is included in the line "Tax on global activities including exports" in note 8.

As a result of the repeal of the extraterritorial income (ETI) taxing regime as part of the American Jobs Creation Act of 2004 (the Act), our aircraft leasing business no longer qualifies for a reduced U.S. tax rate. However, the Act also extended to aircraft leasing, the U.S. tax deferral benefits that were already available to other GE non-U.S. active operations. These legislative changes, coupled with a reorganization of our aircraft leasing business and a favorable Irish tax ruling, decreased the GECS effective tax rate 1.1 percentage points in 2006, compared with 3.0 and 1.6 percentage points in 2005 and 2004, respectively.

Global Risk Management

A disciplined approach to risk is important in a diversified organization such as ours in order to ensure that we are executing according to our strategic objectives and that we only accept risk for which we are adequately compensated. It is necessary for us to manage risk at the individual transaction level, and to consider aggregate risk at the customer, industry, geography and collateral-type levels, where appropriate.

The GE Board of Directors oversees the risk management process through clearly established delegation of authority. Board and committee meeting agendas are jointly developed with management to cover risk topics presented to our Corporate Risk Committee, including environmental, compliance, liquidity, credit and market risks.

The GECS Board of Directors oversees the risk management process for financial services, and approves all significant acquisitions and dispositions as well as borrowings and investments. All participants in the risk management process must comply with approval limits established by the Board.

The GECS Chief Risk Officer is responsible, through the Corporate Risk Function, for establishing standards for the measurement, reporting and limiting of risk; for managing and evaluating risk managers; for approving risk management policies; and for reviewing major risk exposures and concentrations across the organization. The GECS Corporate Risk Function analyzes certain business risks and assesses them in relation to aggregate risk appetite and approval limits set by the GECS Board of Directors.

Threshold responsibility for identifying, quantifying and mitigating risks is assigned to our individual businesses. We employ proprietary analytic models to allocate capital to our financing activities, to identify the primary sources of risk and to measure the amount of risk we will take for each product line. This approach allows us to develop early signals that monitor changes in risk affecting portfolio performance and actively manage the portfolio. Other corporate functions such as Financial Planning and Analysis, Treasury, Legal and our Corporate Audit Staff support business-level risk management. Businesses that, for example, hedge financial risk with derivative financial instruments must do so using our centrally-managed Treasury function, providing assurance that the business strategy complies with our corporate policies and achieves economies of scale. We review risks periodically with business-level risk managers, senior management and our Board of Directors.

GECS employs about 18,000 dedicated risk professionals, including 11,400 involved in collection activities and 680 specialized asset managers who evaluate leased asset residuals and remarket off-lease equipment.

GE and GECS manage a variety of risks including liquidity, credit and market risks.

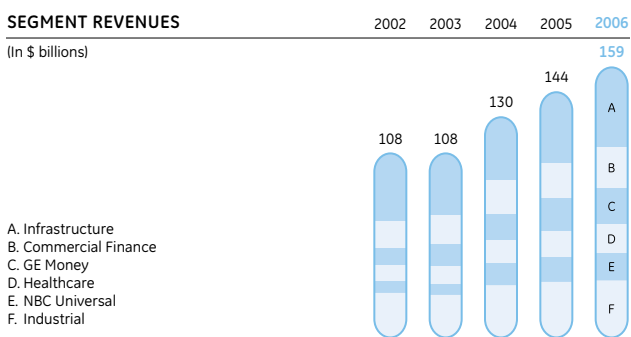
- Liquidity risk is the risk of being unable to accommodate liability maturities, fund asset growth and meet contractual obligations through access to funding at reasonable market rates. Additional information about our liquidity and how we manage this risk can be found in the Financial Resources and Liquidity section and in notes 18 and 27.

- Credit risk is the risk of financial loss arising from a customer or counterparty failure to meet its contractual obligations. We face credit risk in our lending and leasing activities (see the Financial Resources and Liquidity and Critical Accounting Estimates sections and notes 1, 13, 14 and 29) and derivative financial instruments activities (see note 27).
- Market risk is the potential loss in value of investment and other asset and liability portfolios, including financial instruments and residual values of leased assets. This risk is caused by changes in market variables, such as interest and currency exchange rates and equity and commodity prices. We are exposed to market risk in the normal course of our business operations as a result of our ongoing investing and funding activities. Additional information can be found in the Financial Resources and Liquidity section and in notes 15 and 27.

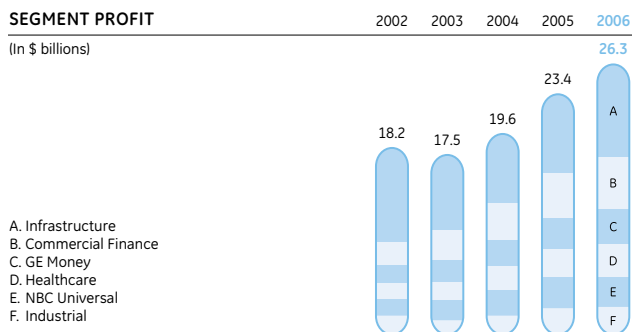
Other risks include natural disasters, availability of necessary materials, guarantees of product performance and business interruption. These types of risks are often insurable, and success in managing these risks is ultimately determined by the balance between the level of risk retained or assumed and the cost of transferring risk to others.

Segment Operations

Operating segments comprise our six businesses focused on the broad markets they serve: Infrastructure, Commercial Finance, GE Money, Healthcare, NBC Universal and Industrial. For segment reporting purposes, certain GECS businesses are included in the industrial operating segments that actively manage such businesses and report their results for internal performance measurement purposes. These include Aviation Financial Services, Energy Financial Services and Transportation Finance reported in the Infrastructure segment, and Equipment Services reported in the Industrial segment.



Segment profit is determined based on internal performance measures used by the Chief Executive Officer to assess the performance of each business in a given period. In connection with that assessment, the Chief Executive Officer may exclude matters such as charges for restructuring; rationalization and other similar expenses; in-process research and development and certain other acquisition-related charges and balances; technology and product development costs; certain gains and losses from dispositions; and litigation settlements or other charges, responsibility for which preceded the current management team.



Segment profit always excludes the effects of principal pension plans, results reported as discontinued operations and accounting changes. Segment profit excludes or includes interest and other financial charges and income taxes according to how a particular segment's management is measured — excluded in determining segment profit, which we refer to as "operating profit," for Healthcare, NBC Universal and the industrial businesses of the Infrastructure and Industrial segments; included in determining segment profit, which we refer to as "net earnings," for Commercial Finance, GE Money, and the financial services businesses of the Infrastructure segment (Aviation Financial Services, Energy Financial Services and Transportation Finance) and the Industrial segment (Equipment Services).

In addition to providing information on segments in their entirety, we have also provided supplemental information for certain businesses within the segments.

We have reclassified certain prior-period amounts to conform to the current period's presentation. For additional information about our segments, see note 26.

Summary of Operating Segments

(In millions)	General Electric Company and consolidated affiliates				
	2006	2005	2004	2003	2002
REVENUES					
Infrastructure	\$ 47,429	\$ 41,803	\$ 37,373	\$ 36,569	\$ 40,119
Commercial Finance	23,792	20,646	19,524	16,927	15,688
GE Money	21,759	19,416	15,734	12,845	10,266
Healthcare	16,562	15,153	13,456	10,198	8,955
NBC Universal	16,188	14,689	12,886	6,871	7,149
Industrial	33,494	32,631	30,722	24,988	26,154
Total segment revenues	159,224	144,338	129,695	108,398	108,331
Corporate items and eliminations	4,167	3,618	4,596	5,023	3,636
CONSOLIDATED REVENUES	\$163,391	\$147,956	\$134,291	\$113,421	\$111,967
SEGMENT PROFIT					
Infrastructure	\$ 9,040	\$ 7,769	\$ 6,797	\$ 7,362	\$ 9,178
Commercial Finance	5,028	4,290	3,570	2,907	2,170
GE Money	3,507	3,050	2,520	2,161	1,799
Healthcare	3,143	2,665	2,286	1,701	1,546
NBC Universal	2,919	3,092	2,558	1,998	1,658
Industrial	2,694	2,559	1,833	1,385	1,837
Total segment profit	26,331	23,425	19,564	17,514	18,188
Corporate items and eliminations	(1,251)	(582)	(11)	375	847
GE interest and other financial charges	(1,834)	(1,432)	(979)	(941)	(569)
GE provision for income taxes	(2,580)	(2,750)	(1,973)	(2,857)	(3,837)
Earnings from continuing operations before accounting changes	20,666	18,661	16,601	14,091	14,629
Earnings (loss) from discontinued operations, net of taxes	163	(1,950)	559	2,057	(616)
Earnings before accounting changes	20,829	16,711	17,160	16,148	14,013
Cumulative effect of accounting changes	—	—	—	(587)	(1,015)
CONSOLIDATED NET EARNINGS	\$ 20,829	\$ 16,711	\$ 17,160	\$ 15,561	\$ 12,998

The notes to consolidated financial statements are an integral part of this summary.

INFRASTRUCTURE

(In millions)	2006	2005	2004
REVENUES	\$47,429	\$41,803	\$37,373
SEGMENT PROFIT	\$ 9,040	\$ 7,769	\$ 6,797
REVENUES			
Aviation	\$13,152	\$11,904	\$11,094
Aviation Financial Services	4,177	3,504	3,159
Energy	19,133	16,525	14,586
Energy Financial Services	1,664	1,349	972
Oil & Gas	4,340	3,598	3,135
Transportation	4,169	3,577	3,007
SEGMENT PROFIT			
Aviation	\$ 2,909	\$ 2,573	\$ 2,238
Aviation Financial Services	1,108	764	520
Energy	3,000	2,665	2,543
Energy Financial Services	695	646	376
Oil & Gas	548	411	331
Transportation	781	524	516

Infrastructure revenues rose 13%, or \$5.6 billion, in 2006 on higher volume (\$4.8 billion), higher prices (\$0.3 billion) and effects of late 2006 weakening of the U.S. dollar (\$0.1 billion) at the industrial businesses in the segment. The increase in volume reflected increased sales of power generation equipment at Energy, commercial and military services and commercial engines at Aviation, equipment at Oil & Gas, and locomotives at Transportation. The increase in price was primarily at Energy. Revenues also increased as a result of organic revenue growth at Aviation Financial Services (\$0.7 billion) and Energy Financial Services (\$0.3 billion). Intra-segment revenues, which increased \$0.5 billion, were eliminated from total Infrastructure revenues.

Segment profit rose 16% to \$9.0 billion, compared with \$7.8 billion in 2005, as higher volume (\$0.7 billion), higher prices (\$0.3 billion) and productivity (\$0.3 billion) more than offset the effects of higher material and other costs (\$0.4 billion) at the industrial businesses in the segment. The increase in volume primarily related to Energy and Aviation. Segment profit from the financial services businesses increased as a result of core growth at Aviation Financial Services (\$0.3 billion), including growth in lower-taxed earnings from global operations that were more than offset by lower one-time benefits from our aircraft leasing business reorganization, and core growth at Energy Financial Services.

Infrastructure revenues rose 12%, or \$4.4 billion, in 2005 as higher volume (\$4.3 billion) was partially offset by lower prices (\$0.6 billion) at the industrial businesses in the segment. The increase in volume was primarily at Energy, Aviation and Transportation. The decrease in prices was primarily at Energy and was partially offset by increased prices at Transportation and Aviation. Revenues also increased as a result of organic revenue growth at Energy Financial Services (\$0.4 billion) and Aviation Financial Services (\$0.3 billion).

Segment profit rose 14% to \$7.8 billion in 2005, compared with \$6.8 billion in 2004, as higher volume (\$1.0 billion) and productivity (\$0.2 billion including customer settlements and contract terminations) more than offset lower prices (\$0.6 billion) and the effects of higher material and other costs (\$0.3 billion) at the industrial businesses in the segment. The increase in volume primarily related to Energy, Aviation and Transportation. Segment profit also increased as a result of increased net earnings at the financial services businesses. This increase reflected core growth at Energy Financial Services (\$0.3 billion) and core growth at Aviation Financial Services (\$0.2 billion), including growth in lower-taxed earnings from global operations related to a reorganization of our aircraft leasing operations.

Infrastructure orders were \$51.1 billion in 2006, up from \$38.4 billion in 2005. The \$39.2 billion total backlog at year-end 2006 comprised unfilled product orders of \$27.0 billion (of which 59% was scheduled for delivery in 2007) and product services orders of \$12.2 billion scheduled for 2007 delivery. Comparable December 31, 2005, total backlog was \$29.2 billion, of which \$18.8 billion was for unfilled product orders and \$10.4 billion for product services orders.

COMMERCIAL FINANCE

(In millions)	2006	2005	2004
REVENUES	\$23,792	\$20,646	\$19,524
SEGMENT PROFIT	\$ 5,028	\$ 4,290	\$ 3,570

December 31 (In millions)	2006	2005
TOTAL ASSETS	\$233,536	\$190,546

(In millions)	2006	2005	2004
REVENUES			
Capital Solutions	\$12,356	\$11,476	\$11,503
Real Estate	5,020	3,492	3,084
SEGMENT PROFIT			
Capital Solutions	\$ 1,727	\$ 1,515	\$ 1,325
Real Estate	1,841	1,282	1,124

December 31 (In millions)	2006	2005
ASSETS		
Capital Solutions	\$94,523	\$87,306
Real Estate	53,786	35,323

Commercial Finance revenues and net earnings increased 15% and 17% in 2006, respectively, compared with 2005. Revenues during 2006 and 2005 included \$1.0 billion and \$0.1 billion from acquisitions, respectively, and in 2006 were reduced by \$0.1 billion

as a result of dispositions. Revenues for 2006 also increased as a result of organic revenue growth (\$2.5 billion). The increase in net earnings resulted primarily from core growth (\$0.6 billion), including growth in lower-taxed earnings from global operations, and acquisitions (\$0.1 billion).

Real Estate assets increased \$18.5 billion (52%), of which \$12.4 billion was real estate investments, up 76%. Real Estate net earnings increased 44% compared with 2005, primarily as a result of a \$0.6 billion increase in net earnings from real estate investments.

Commercial Finance revenues and net earnings increased 6% and 20% in 2005, respectively, compared with 2004. Revenues during 2005 and 2004 included \$1.0 billion and \$0.3 billion from acquisitions, respectively, and in 2005 were reduced by \$0.7 billion as a result of dispositions. Revenues during 2005 also increased \$1.1 billion as a result of organic revenue growth (\$0.8 billion) and the weaker U.S. dollar (\$0.3 billion). The increase in net earnings resulted primarily from core growth (\$0.6 billion), including growth in lower-taxed earnings from global operations, acquisitions (\$0.2 billion) and the weaker U.S. dollar (\$0.1 billion), partially offset by lower securitizations (\$0.1 billion).

GE MONEY

(In millions)	2006	2005	2004
REVENUES	\$21,759	\$19,416	\$15,734
SEGMENT PROFIT	\$ 3,507	\$ 3,050	\$ 2,520

December 31 (In millions)	2006	2005
TOTAL ASSETS	\$190,403	\$158,829

GE Money revenues and net earnings increased 12% and 15% in 2006, respectively, compared with 2005. Revenues for 2006 included \$0.9 billion from acquisitions. Revenues in 2006 also increased as a result of organic revenue growth (\$1.6 billion), partially offset by the overall strengthening U.S. dollar (\$0.2 billion). The increase in net earnings resulted primarily from core growth (\$0.4 billion), including growth in lower-taxed earnings from global operations, acquisitions (\$0.2 billion) and higher securitizations (\$0.1 billion), partially offset by reduced earnings from our Japanese business (\$0.2 billion), primarily related to higher customer claims for partial interest refunds under Japanese law. In 2006 and 2005, charges related to these claims totaled \$0.4 billion and \$0.2 billion after tax, respectively.

On December 13, 2006, a new lending law was passed in Japan. This law will significantly affect the operating environment for the entire consumer lending industry in Japan. This law will be phased in over three years and will reduce the maximum allowable lending rate and limit individual consumer borrowing by 2010. Our future revenues and provisions for losses in Japan continue to be affected by both this legislation and the volume and amounts of claims. We are taking appropriate strategic actions to address these matters.

GE Money revenues and net earnings increased 23% and 21% in 2005, respectively, compared with 2004. Revenues for 2005 included \$1.9 billion from acquisitions. Revenues during 2005 also increased \$1.8 billion as a result of organic revenue

growth (\$1.5 billion) and the weaker U.S. dollar (\$0.3 billion). The increase in net earnings resulted primarily from core growth (\$0.6 billion), including growth in lower-taxed earnings from global operations, and acquisitions (\$0.1 billion), partially offset by increased costs to launch new products and promote brand awareness (\$0.2 billion).

HEALTHCARE revenues rose 9% to \$16.6 billion in 2006 as higher volume (\$1.8 billion) more than offset the effect of lower prices (\$0.4 billion). The rise in volume related to increases in health-care services, including the effects of the 2006 acquisition of IDX Systems Corporation and stronger equipment sales. Segment profit of \$3.1 billion was 18% higher than in 2005 as productivity (\$0.6 billion) and the effects of higher volume (\$0.3 billion) more than offset the effects of lower prices (\$0.4 billion) and higher material and other costs (\$0.1 billion).

Healthcare revenues increased 13% to \$15.2 billion in 2005 as higher volume (\$2.1 billion), including \$0.8 billion from the Amersham acquisition in the second quarter of 2004, and the weaker U.S. dollar (\$0.1 billion) more than offset lower prices (\$0.4 billion). Segment profit of \$2.7 billion was 17% higher than in 2004 as productivity (\$0.5 billion) and higher volume (\$0.4 billion) more than offset lower prices (\$0.4 billion) and higher labor and other costs (\$0.1 billion).

Orders received by Healthcare in 2006 were \$16.7 billion, compared with \$15.6 billion in 2005. The \$5.9 billion total backlog at year-end 2006 comprised unfilled product orders of \$3.9 billion (of which 84% was scheduled for delivery in 2007) and product services orders of \$2.0 billion scheduled for 2007 delivery. Comparable December 31, 2005, total backlog was \$5.4 billion, of which \$3.5 billion was for unfilled product orders and \$1.9 billion for product services orders. See Corporate Items and Eliminations for a discussion of items not allocated to this segment.

NBC UNIVERSAL revenues rose 10%, or \$1.5 billion in 2006, primarily from the 2006 Olympic Games broadcasts (\$0.7 billion), improvements in the entertainment cable business (\$0.6 billion), improvements in the film business (\$0.2 billion) and the effects of exiting a film distribution agreement (\$0.2 billion), partially offset by the effects of lower ratings on network and station advertising sales (\$0.1 billion) and the net effects of certain strategic actions in both years (\$0.1 billion). Segment profit declined 6%, or \$0.2 billion, in 2006 as lower earnings from network and station operations (\$0.4 billion), the 2006 Olympic Games broadcasts (\$0.1 billion), and the net effects of certain strategic actions in both years (\$0.1 billion) were partially offset by higher earnings from the cable business (\$0.2 billion) and the effects of exiting a film distribution agreement (\$0.1 billion).

Revenues rose 14%, or \$1.8 billion, to \$14.7 billion in 2005, reflecting a number of factors, the largest of which was the full-year contribution from the May 2004 combination of NBC with VUE, which resulted in higher film revenues (\$1.6 billion), growth of our entertainment cable business (\$0.6 billion), and higher revenues from television production operations (\$0.3 billion) and theme parks (\$0.1 billion). Also contributing to the increase was \$0.5 billion from the effects of certain strategic actions.

Partial offsets arose from the lack of a counterpart to the 2004 Olympic Games broadcasts (\$0.9 billion) and the effects of lower ratings on network and station advertising sales (\$0.4 billion). Segment profit rose 21%, or \$0.5 billion, in 2005 as the full-year ownership of VUE contributed \$0.6 billion, including improvements in the film (\$0.3 billion), entertainment cable (\$0.2 billion) and television production (\$0.1 billion) businesses. The effects of certain strategic actions (\$0.5 billion) were more than offset by lower earnings from network and station operations (\$0.6 billion). See Corporate Items and Eliminations for a discussion of items not allocated to this segment.

INDUSTRIAL

(In millions)	2006	2005	2004
REVENUES	\$33,494	\$32,631	\$30,722
SEGMENT PROFIT	\$ 2,694	\$ 2,559	\$ 1,833

(In millions)	2006	2005	2004
REVENUES			
Consumer & Industrial	\$14,249	\$14,092	\$13,767
Equipment Services	7,061	6,627	6,571
Plastics	6,649	6,606	6,066
SEGMENT PROFIT			
Consumer & Industrial	\$ 1,140	\$ 871	\$ 716
Equipment Services	269	197	82
Plastics	674	867	566

Industrial revenues rose 3%, or \$0.9 billion, in 2006 as higher volume (\$0.7 billion) was partially offset by lower prices (\$0.2 billion) and the effects of the overall strengthening U.S. dollar (\$0.1 billion) at the industrial businesses in the segment. Volume increases and price decreases were primarily at Plastics. Consumer & Industrial volume was unchanged as volume from organic growth (\$0.9 billion) was offset by the effects of lost volume from GE Supply, which was sold in the third quarter of 2006. Revenues increased at Equipment Services as a result of the second quarter 2006 consolidation of GE SeaCo, an entity previously accounted for using the equity method (\$0.2 billion), and organic revenue growth (\$0.2 billion). Segment profit rose 5% as productivity (\$0.9 billion), primarily at Consumer & Industrial and Plastics, and higher volume (\$0.1 billion) were partially offset by higher material and other costs (\$0.7 billion), primarily at Consumer & Industrial and Plastics, and lower prices (\$0.2 billion). Price increases were realized at Consumer & Industrial to offset commodity inflation, but these increases were more than offset by price declines at Plastics. Segment profit at Equipment Services increased as a result of core growth (\$0.1 billion).

Industrial revenues rose 6%, or \$1.9 billion, in 2005 on higher prices (\$1.5 billion), higher volume (\$0.2 billion) and the weaker U.S. dollar (\$0.2 billion) at the industrial businesses in the segment. We realized price increases primarily at Plastics and Consumer & Industrial. Volume increases related primarily to the acquisitions of Edwards Systems Technology and InVision Technologies, Inc. by our Security business, but were partially offset by lower volume at Plastics. Revenues at Equipment Services also increased as a result of organic revenue growth (\$0.4 billion) and acquisitions

(\$0.1 billion), partially offset by the effects of the 2004 disposition of IT Solutions (\$0.4 billion). Segment profit rose 35%, or \$0.6 billion, at the industrial businesses in the segment in 2005 as price increases (\$1.5 billion) and higher volume (\$0.1 billion) more than offset higher material and other costs (\$0.8 billion), primarily from commodities such as benzene and natural gas at Plastics, and lower productivity (\$0.2 billion). Segment profit at Equipment Services also increased as a result of improved operating performance, reflecting core growth (\$0.1 billion). See Corporate Items and Eliminations for a discussion of items not allocated to this segment.

CORPORATE ITEMS AND ELIMINATIONS

(In millions)	2006	2005	2004
REVENUES			
Insurance activities	\$ 3,692	\$ 4,183	\$ 4,003
GECS commercial paper interest rate swap adjustment	197	540	518
Eliminations and other	278	(1,105)	75
Total	\$ 4,167	\$ 3,618	\$ 4,596
OPERATING PROFIT (COST)			
Insurance activities	\$ 57	\$ 159	\$ 5
Principal pension plans	(877)	(329)	124
Underabsorbed corporate overhead	(269)	(464)	(498)
GECS commercial paper interest rate swap adjustment	130	358	341
Other	(292)	(306)	17
Total	\$(1,251)	\$ (582)	\$ (11)

Corporate Items and Eliminations include the effects of eliminating transactions between operating segments; results of our insurance activities remaining in continuing operations; cost of, and cost reductions from, our principal pension plans; results of liquidating businesses such as consolidated, liquidating securitization entities; underabsorbed corporate overhead; certain non-allocated amounts described below; and a variety of sundry items. Corporate Items and Eliminations is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements.

Certain amounts included in the line "Other" above are not allocated to GE operating segments because they are excluded from the measurement of their operating performance for internal purposes. In 2006, amounts not allocated to GE operating segments included \$0.2 billion at NBC Universal, principally for technology and product development costs and restructuring charges; \$0.2 billion at Industrial for restructuring and other charges; and \$0.1 billion at Healthcare, principally for acquisition-related, restructuring and other charges. In 2004, these comprised \$0.4 billion of Healthcare charges, principally related to the write-off of in-process research and development projects and other transitional costs associated with Amersham; and a \$0.1 billion charge at Industrial as the gain on sale of the motors business was more than offset by costs for inventory obsolescence and other charges.

Other operating profit (cost) also reflects gains of \$0.7 billion in 2006 from sales of business interests, principally Advanced Materials and GE Supply, as well as \$0.1 billion and \$0.3 billion from partial sales of an interest in Genpact in 2005 and 2004, respectively. We have ongoing commercial and financial relationships with these former affiliates.

DISCONTINUED INSURANCE OPERATIONS

(In millions)	2006	2005	2004
Earnings (loss) from discontinued operations, net of taxes	\$163	\$(1,950)	\$559

Discontinued operations comprise GE Life, our U.K.-based life insurance operation; the property and casualty insurance and reinsurance businesses and the European life and health operations of GE Insurance Solutions and most of its affiliates; and Genworth, our formerly wholly-owned subsidiary that conducted most of our consumer insurance business, including life and mortgage insurance operations. Results of these businesses are reported as discontinued operations for all periods presented.

In December 2006, we completed the sale of GE Life to Swiss Re for \$0.9 billion. As a result, we recognized a loss of \$0.3 billion after tax during 2006.

In June 2006, we completed the sale of the property and casualty insurance and reinsurance businesses and the European life and health operations of GE Insurance Solutions to Swiss Re for \$9.3 billion, including the assumption of \$1.7 billion of debt. We received \$5.4 billion in cash and \$2.2 billion of newly issued Swiss Re common stock, representing a 9% interest in Swiss Re.

In May 2004, we completed the initial public offering of Genworth. Throughout 2005, we continued to reduce our ownership in Genworth. In March 2006, we completed the sale of our remaining 18% investment, through a secondary public offering of 71 million shares of Class A Common Stock and direct sale to Genworth of 15 million shares of Class B Common Stock.

Earnings from discontinued operations, net of taxes, in 2006 were \$0.2 billion, reflecting earnings from GE Insurance Solutions through the date of disposal (\$0.3 billion), the gain on the sale of our remaining 18% investment in Genworth (\$0.2 billion) and earnings from GE Life through the date of disposal (\$0.1 billion), partially offset by the losses on disposal of GE Life (\$0.3 billion) and GE Insurance Solutions (\$0.1 billion).

Loss from discontinued operations, net of taxes, in 2005 was \$1.9 billion, reflecting losses from the portions of GE Insurance Solutions described above (\$2.8 billion), partially offset by earnings from, and gains on the sale of, Genworth (\$0.9 billion).

Earnings from discontinued operations, net of taxes, in 2004 were \$0.6 billion, reflecting earnings of Genworth (\$0.4 billion), including our share of 2004 earnings from operations (\$0.8 billion), partially offset by the loss on the Genworth initial public offering in May 2004 (\$0.3 billion), and earnings from GE Insurance Solutions (\$0.1 billion), primarily 2004 operations.

For additional information related to discontinued operations, see note 2.

Global Operations

Our global activities span all geographic regions and primarily encompass manufacturing for local and export markets, import and sale of products produced in other regions, leasing of aircraft, sourcing for our plants domiciled in other global regions and provision of financial services within these regional economies. Thus, when countries or regions experience currency and/or economic stress, we often have increased exposure to certain risks, but also often have new profit opportunities. Potential increased risks include, among other things, higher receivable delinquencies and bad debts, delays or cancellations of sales and orders principally related to power and aircraft equipment, higher local currency financing costs and slowdown in established financial services activities. New profit opportunities include, among other things, more opportunities for lower cost outsourcing, expansion of industrial and financial services activities through purchases of companies or assets at reduced prices and lower U.S. debt financing costs.

Estimated results of global activities include the results of our operations located outside the United States plus all U.S. exports. We classify certain GECS operations that cannot meaningfully be associated with specific geographic areas as "Other Global" for this purpose.

GLOBAL REVENUES BY REGION

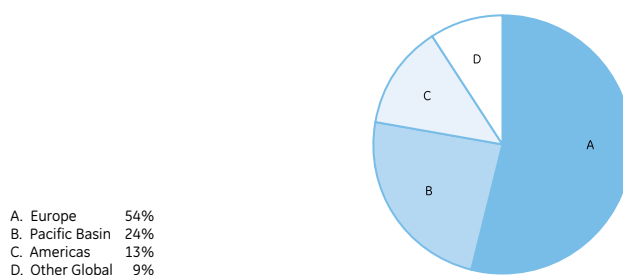
(In millions)	2006	2005	2004
Europe	\$39,700	\$34,600	\$31,700
Pacific Basin	18,000	16,000	13,000
Americas	9,600	7,500	7,000
Other Global	7,000	6,100	5,700
	74,300	64,200	57,400
Exports from the U.S. to external customers	13,100	11,400	8,800
Total ^(a)	\$87,400	\$75,600	\$66,200

(a) Included \$7.7 billion, \$6.6 billion and \$5.8 billion of intercompany revenues in 2006, 2005 and 2004, respectively.

Global revenues rose 16% to \$87.4 billion in 2006, compared with \$75.6 billion and \$66.2 billion in 2005 and 2004, respectively. Global revenues to external customers as a percentage of consolidated revenues were 49% in 2006, compared with 47% and 45% in 2005 and 2004, respectively. The effects of currency fluctuations on reported results were to decrease revenues by \$0.1 billion in 2006 and increase revenues by \$0.9 billion and \$4.1 billion in 2005 and 2004, respectively; and to increase earnings by \$0.1 billion in both 2005 and 2004, compared with an inconsequential effect on earnings in 2006.

GE global revenues in 2006 were \$56.5 billion, up 17% over 2005, led by increases at Infrastructure, primarily in Europe and the Americas. U.S. exports grew 14% in 2006 on strong growth led by Infrastructure, again showing strength in Europe and the Americas. GE global revenues were \$48.2 billion in 2005, up 15% over 2004, led by increases at Infrastructure and NBC Universal, mainly in Europe and the Pacific Basin. Exports from the U.S. were up 30%, led by Infrastructure, again showing strength in Europe and the Pacific Basin.

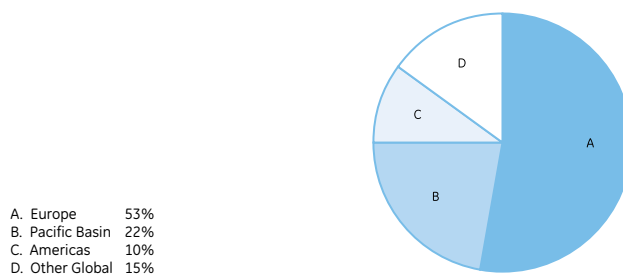
2006 GLOBAL REVENUES BY REGION



GECS global revenues rose 12% to \$30.9 billion in 2006, compared with \$27.4 billion and \$24.5 billion in 2005 and 2004, respectively. GECS revenues in Other Global increased 21% in 2006, primarily as a result of organic revenue growth at the Aviation Financial Services business of Infrastructure. GECS revenues increased 19% in the Americas, primarily as a result of organic revenue growth and acquisitions at Commercial Finance and GE Money, partially offset by dispositions at Commercial Finance. GECS revenues increased 10% in Europe, primarily as a result of organic revenue growth and acquisitions at Commercial Finance and GE Money, partially offset by results of our remaining insurance activities.

Global operating profit was \$15.2 billion in 2006, an increase of 20% over 2005, which was 20% higher than in 2004. GE global operating profit in 2006 rose 18%, primarily from gains on the sale of Advanced Materials in the Pacific Basin and core growth in Europe, primarily at Infrastructure.

2006 GLOBAL ASSETS BY REGION



Total assets of global operations on a continuing basis were \$344.9 billion in 2006, an increase of \$59.9 billion, or 21%, over 2005. GECS global assets on a continuing basis of \$305.9 billion at the end of 2006 were 24% higher than at the end of 2005, reflecting core growth and acquisitions in Europe, the Pacific Basin and the Americas, primarily at Commercial Finance and GE Money.

Financial results of our global activities reported in U.S. dollars are affected by currency exchange. We use a number of techniques to manage the effects of currency exchange, including selective borrowings in local currencies and selective hedging of significant cross-currency transactions. Such principal currencies are the pound sterling, the euro, the Japanese yen and the Canadian dollar.

Environmental Matters

Our operations, like operations of other companies engaged in similar businesses, involve the use, disposal and cleanup of substances regulated under environmental protection laws.

We are involved in a sizable number of remediation actions to clean up hazardous wastes as required by federal and state laws. Such statutes require that responsible parties fund remediation actions regardless of fault, legality of original disposal or ownership of a disposal site. Expenditures for site remediation actions amounted to \$0.2 billion in 2006 and \$0.1 billion in both 2005 and 2004. We presently expect that such remediation actions will require average annual expenditures in the range of \$0.2 billion to \$0.3 billion over the next two years.

The U.S. Environmental Protection Agency (EPA) ruled in February 2002 that approximately 150,000 pounds of polychlorinated biphenyls (PCBs) must be dredged from a 40-mile stretch of the upper Hudson River in New York state. On November 2, 2006, the U.S. District Court for the Northern District of New York approved a consent decree entered into between GE and the EPA that represents a comprehensive framework for implementation of the EPA's 2002 decision to dredge PCB-containing sediments in the upper Hudson River. The dredging will be performed in two phases with an intervening peer review of performance after phase 1. Under this consent decree, we have committed up to \$0.1 billion to reimburse the EPA for its past and future project oversight costs and agreed to perform the first phase of dredging. We further committed that, subject to future agreement with the EPA about completion of dredging after completion of phase 1 and the peer review, we will be responsible for further costs, including costs of phase 2 dredging. Our Statement of Financial Position as of December 31, 2006 and 2005, included liabilities for the estimated costs of this remediation.

Financial Resources and Liquidity

This discussion of financial resources and liquidity addresses the Statement of Financial Position, the Statement of Changes in Shareowners' Equity, the Statement of Cash Flows, Contractual Obligations, Off-Balance Sheet Arrangements, and Debt Instruments, Guarantees and Covenants.

The fundamental differences between GE and GECS are reflected in the measurements commonly used by investors, rating agencies and financial analysts. These differences will become clearer in the discussion that follows with respect to the more significant items in the financial statements.

Overview of Financial Position

Major changes in our financial position resulted from the following:

- During 2006, we substantially completed our insurance exit, which reduced assets and liabilities of discontinued operations by \$61.1 billion and \$49.1 billion, respectively.
- During 2006, we completed the acquisitions of ZENON Environmental Inc. at Infrastructure; IDX Systems Corporation and Biacore International AB at Healthcare; iVillage Inc. at NBC Universal; Banque Artesia Nederland N.V., Arden Realty, Inc., the custom fleet business of National Australia Bank Ltd., and

the senior housing portfolios of Formation Capital LLC at Commercial Finance; and the private-label credit card portfolio of Hudson's Bay Company at GE Money.

- The U.S. dollar was weaker at December 31, 2006, than it was at December 31, 2005, increasing the translated levels of our non-U.S. dollar assets and liabilities. Overall, on average, the U.S. dollar in 2006 was slightly stronger than during the comparable 2005 period; stronger in the first half and weaker in the second half of the year. Depending on the timing of our non-U.S. dollar operations, this resulted in either decreasing or increasing the translated levels of our operations as noted in the preceding Operations section.

Statement of Financial Position

Because GE and GECS share certain significant elements of their Statements of Financial Position — property, plant and equipment and borrowings, for example — the following discussion addresses significant captions in the "consolidated" statement. Within the following discussions, however, we distinguish between GE and GECS activities in order to permit meaningful analysis of each individual consolidating statement.

INVESTMENT SECURITIES comprise mainly investment-grade debt securities supporting obligations to annuitants and policyholders. Investment securities were \$47.8 billion at December 31, 2006, compared with \$42.1 billion at December 31, 2005.

We regularly review investment securities for impairment based on both quantitative and qualitative criteria. Quantitative criteria include length of time and amount that each security is in an unrealized loss position and, for fixed maturities, whether the issuer is in compliance with terms and covenants of the security. Qualitative criteria include the financial health of and specific prospects for the issuer, as well as our intent and ability to hold the security to maturity or until forecasted recovery. Our impairment reviews involve our finance, risk and asset management teams as well as the portfolio management and research capabilities of our internal and third-party asset managers. Our qualitative review attempts to identify those issuers with a greater than 50% chance of default in the following 12 months. These securities are characterized as "at-risk" of impairment. Of investment securities with unrealized losses at December 31, 2006, an insignificant amount was at risk of being charged to earnings in the next 12 months.

Impairment losses for both 2006 and 2005 totaled \$0.1 billion. We recognized impairments in both periods for issuers in a variety of industries; we do not believe that any of the impairments indicate likely future impairments in the remaining portfolio.

Gross unrealized gains and losses totaled \$2.9 billion and \$0.3 billion, respectively, at December 31, 2006, compared with \$2.3 billion and \$0.5 billion, respectively, at December 31, 2005, primarily reflecting an increase in the estimated fair value of equity securities, partially offset by a decrease in the estimated fair value of debt securities as interest rates increased. At December 31, 2006, available 2007 accounting gains could be as much as \$1.7 billion, net of consequential adjustments to certain insurance assets that are amortized based on anticipated

gross profits. The market values we used in determining unrealized gains and losses are those defined by relevant accounting standards and should not be viewed as a forecast of future gains or losses.

We also hold collateralized investment securities issued by various airlines, including those operating in bankruptcy. Total amortized cost and fair value of these securities were \$0.7 billion at December 31, 2006. Unrealized losses associated with securities in an unrealized loss position for more than 12 months were insignificant, an improvement from the comparable \$0.1 billion a year earlier. All of these securities have remained current on all payment terms; we do not expect the borrowers to default. Current appraised market values of associated aircraft collateral exceeded both the market value and the amortized cost of our related securities at December 31, 2006, offering protection in the event of foreclosure. Therefore, we expect full recovery of our investment as well as our contractual returns. See note 10.

WORKING CAPITAL, representing GE inventories and receivables from customers, less trade payables and progress collections, was \$7.6 billion at December 31, 2006, down \$0.8 billion from December 31, 2005.

We discuss current receivables and inventories, two important elements of working capital, in the following paragraphs.

CURRENT RECEIVABLES for GE amounted to \$14.3 billion at the end of 2006 and \$15.1 billion at the end of 2005, and included \$9.1 billion due from customers at the end of 2006 compared with \$10.3 billion at the end of 2005. Turnover of customer receivables from sales of goods and services was 10.6 in 2006, compared with 9.0 in 2005. Other current receivables are primarily amounts that did not originate from sales of GE goods or services, such as advances to suppliers in connection with large contracts. The allowance for losses decreased \$0.3 billion in 2006, primarily reflecting write-offs of receivables for which losses were previously provided. See note 11.

INVENTORIES for GE amounted to \$11.3 billion at December 31, 2006, up \$1.0 billion from the end of 2005. This increase reflected higher inventories at Infrastructure, which is in line with anticipated growth. GE inventory turnover was 8.3 in both 2006 and 2005. See note 12.

FINANCING RECEIVABLES is our largest category of assets and represents one of our primary sources of revenues. The portfolio of financing receivables, before allowance for losses, was \$338.9 billion at December 31, 2006, and \$292.2 billion at December 31, 2005. The related allowance for losses at December 31, 2006, amounted to \$4.7 billion, compared with \$4.6 billion at December 31, 2005, representing our best estimate of probable losses inherent in the portfolio. The 2006 increase reflected overall growth in our portfolio at GE Money and late-year weakening of the U.S. dollar, primarily at GE Money; partially offset by overall improvement in portfolio quality at Commercial Finance and lower losses on commercial aviation loans and leases in our Infrastructure segment. Balances at December 31, 2006 and 2005, included securitized, managed GE trade receivables of \$6.0 billion and \$3.9 billion, respectively.

A discussion of the quality of certain elements of the financing receivables portfolio follows. For purposes of that discussion, "delinquent" receivables are those that are 30 days or more past due; and "nonearning" receivables are those that are 90 days or more past due (or for which collection has otherwise become doubtful).

Commercial Finance financing receivables, before allowance for losses, totaled \$153.2 billion at December 31, 2006, compared with \$131.8 billion at December 31, 2005, and consisted of loans and leases to the equipment and leasing, commercial and industrial and real estate industries. This portfolio of receivables increased primarily from core growth (\$58.3 billion), acquisitions (\$5.6 billion), and late-year weakening of the U.S. dollar (\$2.4 billion), partially offset by securitizations and sales (\$42.8 billion). Related nonearning receivables were \$1.6 billion (1.0% of outstanding receivables) at December 31, 2006, and \$1.3 billion (1.0% of outstanding receivables) at year-end 2005. Commercial Finance financing receivables are generally backed by assets and there is a broad spread of geographic and credit risk in the portfolio.

GE Money financing receivables, before allowance for losses, were \$156.7 billion at December 31, 2006, compared with \$130.1 billion at December 31, 2005, and consisted primarily of card receivables, installment loans, auto loans and leases, and residential mortgages. This portfolio of receivables increased primarily as a result of core growth (\$17.7 billion), late-year weakening of the U.S. dollar (\$8.2 billion) and acquisitions (\$3.2 billion), partially offset by loans transferred to assets held for sale (\$2.5 billion). Related nonearning receivables were \$3.3 billion at December 31, 2006, compared with \$2.8 billion at December 31, 2005, both representing 2.1% of outstanding receivables. The increase was primarily related to the weaker U.S. dollar at the end of the year and overall growth in the portfolio.

Infrastructure financing receivables, before allowance for losses, were \$21.2 billion at December 31, 2006, compared with \$19.1 billion at December 31, 2005, and consisted primarily of loans and leases to the commercial aircraft and energy industries. Related nonearning receivables were insignificant at December 31, 2006 and 2005.

Other financing receivables, before allowance for losses, were \$7.8 billion and \$11.2 billion at December 31, 2006, and December 31, 2005, respectively, and consisted primarily of financing receivables in consolidated, liquidating securitization entities. This portfolio of receivables decreased because we have stopped transferring assets to these entities. Related non-earning receivables at December 31, 2006, were \$0.1 billion (1.1% of outstanding receivables) compared with \$0.1 billion (0.7% of outstanding receivables) at December 31, 2005.

Delinquency rates on managed Commercial Finance equipment loans and leases and managed GE Money financing receivables follow.

December 31	2006	2005	2004
Commercial Finance	1.22%	1.31%	1.40%
GE Money	5.05	5.08	4.85

Delinquency rates at Commercial Finance decreased from December 31, 2004, through December 31, 2006, primarily resulting from improved credit quality across all portfolios.

Delinquency rates at GE Money decreased from December 31, 2005, to December 31, 2006, as a result of improvements in our European secured financing business, partially offset by the weakening U.S. dollar at the end of the year. The increase from December 31, 2004, to December 31, 2005, reflected higher delinquencies in our European secured financing business, a business that tends to experience relatively higher delinquencies but lower losses than the rest of the consumer portfolio. See notes 13 and 14.

OTHER GECS RECEIVABLES totaled \$21.9 billion at December 31, 2006, and \$18.6 billion at December 31, 2005, and consisted primarily of amounts due from GE (generally related to certain material procurement programs), insurance receivables, nonfinancing customer receivables, amounts due under operating leases, receivables due on sale of securities and various sundry items.

PROPERTY, PLANT AND EQUIPMENT amounted to \$75.0 billion at December 31, 2006, up \$7.4 billion from 2005, primarily reflecting acquisitions of commercial aircraft at the Aviation Financial Services business of Infrastructure and the consolidation of GE SeaCo at the Equipment Services business of Industrial during the second quarter of 2006. GE property, plant and equipment consisted of investments for its own productive use, whereas the largest element for GECS was equipment provided to third parties on operating leases. Details by category of investment are presented in note 15.

GE expenditures for plant and equipment during 2006 totaled \$3.4 billion, compared with \$2.8 billion in 2005. Total expenditures for the past five years were \$13.1 billion, of which 30% was investment for growth through new capacity and product development; 35% was investment in productivity through new equipment and process improvements; and 35% was investment for other purposes such as improvement of research and development facilities and safety and environmental protection.

GECS additions to property, plant and equipment were \$13.2 billion and \$11.6 billion during 2006 and 2005, respectively, primarily reflecting additions of vehicles at Commercial Finance and the Equipment Services business of Industrial, and commercial aircraft at the Aviation Financial Services business of Infrastructure.

INTANGIBLE ASSETS were \$86.4 billion at the end of 2006, up from \$81.6 billion at the end of 2005. GE intangible assets increased \$2.6 billion from \$57.8 billion at the end of 2005, principally as a result of goodwill and other intangible assets related to the IDX Systems Corporation and Biacore International AB acquisitions by Healthcare, the ZENON Environmental Inc. acquisition by Infrastructure, and the acquisition of iVillage Inc. by NBC Universal. This increase to intangible assets was offset by dispositions of \$1.3 billion, principally as a result of the sale of Advanced Materials by Industrial.

GECS intangible assets increased by \$2.2 billion to \$26.0 billion at December 31, 2006, principally as a result of increases in goodwill and other intangible assets, primarily related to acquisitions and the weaker U.S. dollar at the end of the year. See note 16.

ALL OTHER ASSETS totaled \$97.1 billion at year-end 2006, an increase of \$12.3 billion, reflecting increases from additional investments and acquisitions in real estate, increases in assets held for sale, partially offset by decreases in associated companies and prepaid pension assets. See note 17.

BORROWINGS amounted to \$433.0 billion at December 31, 2006, compared with \$370.4 billion at the end of 2005.

GE total borrowings were \$11.3 billion at year-end 2006 (\$2.2 billion short term, \$9.1 billion long term) compared with \$10.2 billion at December 31, 2005. GE total debt at the end of 2006 equaled 8.7% of total capital compared with 8.1% at the end of 2005.

GECS borrowings amounted to \$426.3 billion at December 31, 2006, of which \$173.3 billion is due in 2007 and \$253.0 billion is due in subsequent years. Comparable amounts at the end of 2005 were \$362.1 billion in total, \$157.7 billion due within one year and \$204.4 billion due thereafter. Included in GECS total borrowings were borrowings of consolidated, liquidating securitization entities amounting to \$11.1 billion and \$16.8 billion at December 31, 2006 and 2005, respectively. A large portion of GECS borrowings (\$100.2 billion and \$97.4 billion at the end of 2006 and 2005, respectively) was issued in active commercial paper markets that we believe will continue to be a reliable source of short-term financing. The average remaining terms and interest rates of GE Capital commercial paper were 48 days and 5.09% at the end of 2006, compared with 45 days and 4.09% at the end of 2005. The GE Capital ratio of debt to equity was 7.52 to 1 at the end of 2006 and 7.09 to 1 at the end of 2005. See note 18.

EXCHANGE RATE AND INTEREST RATE RISKS are managed with a variety of techniques, including match funding and selective use of derivatives. We use derivatives to mitigate or eliminate certain financial and market risks because we conduct business in diverse markets around the world and local funding is not always efficient. In addition, we use derivatives to adjust the debt we are issuing to match the fixed or floating nature of the assets we are acquiring. We apply strict policies to manage each of these risks, including prohibitions on derivatives trading, derivatives market-making or other speculative activities. Following is an analysis of the potential effects of changes in interest rates and currency exchange rates using so-called "shock" tests that model effects of shifts in rates. These are not forecasts.

- It is our policy to minimize exposure to interest rate changes. We fund our financial investments using debt or a combination of debt and hedging instruments so that the interest rates and terms of our borrowings match the expected yields and terms on our assets. To test the effectiveness of our positions, we assumed that, on January 1, 2007, interest rates increased by 100 basis points across the yield curve (a "parallel shift" in

that curve) and further assumed that the increase remained in place for 2007. We estimated, based on that year-end 2006 portfolio and holding everything else constant, that our 2007 GE consolidated net earnings would decline by \$0.2 billion.

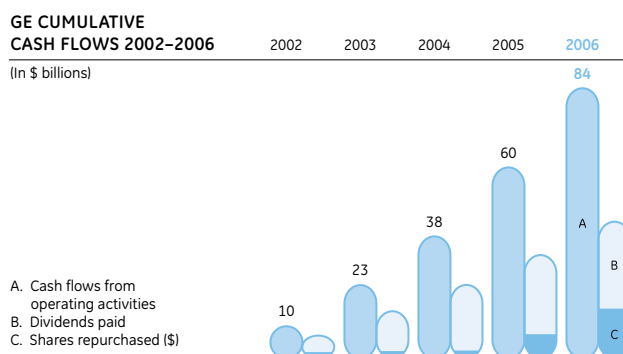
- It is our policy to minimize currency exposures and to conduct operations either within functional currencies or using the protection of hedge strategies. We analyzed year-end 2006 consolidated currency exposures, including derivatives designated and effective as hedges, to identify assets and liabilities denominated in other than their relevant functional currencies. For such assets and liabilities, we then evaluated the effects of a 10% shift in exchange rates between those currencies and the U.S. dollar. This analysis indicated that there would be an inconsequential effect on 2007 earnings of such a shift in exchange rates.

Consolidated Statement of Changes in Shareowners' Equity

Shareowners' equity increased by \$3.0 billion and \$31.2 billion in 2006 and 2004, respectively, and decreased by \$1.6 billion in 2005. Changes over the three-year period were largely attributable to net earnings, partially offset by dividends declared of \$10.7 billion, \$9.6 billion and \$8.6 billion in 2006, 2005 and 2004, respectively. In 2006, we purchased \$7.8 billion of GE stock (229.4 million shares) and in 2005, we purchased \$5.3 billion of GE stock (153.3 million shares) under our \$25 billion share repurchase program. In 2004, we issued 341.7 million shares of stock in connection with the Amersham acquisition, which increased equity by \$10.7 billion, and 119.4 million shares of stock to partially fund the combination of NBC and VUE, which increased equity by \$3.8 billion. Currency translation adjustments increased equity by \$3.6 billion in 2006 and \$3.9 billion in 2004, compared with a \$4.3 billion decrease in 2005. Changes in currency translation adjustments reflect the effects of changes in currency exchange rates on our net investment in non-U.S. subsidiaries that have functional currencies other than the U.S. dollar. As of December 31, 2006, the U.S. dollar was weaker than the pound sterling and the euro and slightly stronger than the Japanese yen. As of December 31, 2005, the U.S. dollar was stronger than the pound sterling, the euro and the Japanese yen. As of December 31, 2004, the pound sterling, the euro and to a lesser extent, Asian currencies were stronger than the U.S. dollar. See note 23. Accumulated currency translation adjustments affect net earnings only when all or a portion of an affiliate is disposed of or substantially liquidated.

Overview of Our Cash Flow from 2004 through 2006

GE cash from operating activities (CFOA) is a useful measure of performance for our non-financial businesses and totaled \$24.6 billion in 2006, \$21.6 billion in 2005 and \$15.2 billion in 2004. Generally, factors that affect our earnings—for example, pricing, volume, costs and productivity—affect CFOA similarly. However, while management of working capital, including timing of collections and payments and levels of inventory, affects operating results only indirectly, the effect of these programs on CFOA can be significant.



Our GE Statement of Cash Flows shows CFOA in the required format. While that display is of some use in analyzing how various assets and liabilities affected our year-end cash positions, we believe that it is also useful to supplement that display and to examine in a broader context the business activities that provide and require cash.

December 31 (In billions)	2006	2005	2004
Operating cash collections	\$ 98.2	\$ 89.9	\$ 81.6
Operating cash payments	(83.4)	(76.1)	(69.5)
Cash dividends from GECS	9.8	7.8	3.1
GE cash from operating activities	\$ 24.6	\$ 21.6	\$ 15.2

The most significant source of cash in CFOA is customer-related activities, the largest of which is collecting cash following a product or services sale. GE operating cash collections increased by \$8.3 billion during both 2006 and 2005. These increases are consistent with the changes in comparable GE operating segment revenues, comprising Healthcare, NBC Universal and the industrial businesses of the Industrial and Infrastructure segments. Analyses of operating segment revenues discussed in the preceding Segment Operations section is the best way of understanding their customer-related CFOA.

The most significant operating use of cash is to pay our suppliers, employees, tax authorities and others for the wide range of materials and services necessary in a diversified global organization. GE operating cash payments increased by \$7.3 billion in 2006 and by \$6.6 billion in 2005, comparable to the increases in GE total costs and expenses.

Dividends from GECS represented distribution of a portion of GECS retained earnings, including proceeds from certain business sales, and are distinct from cash from continuing operating activities within the financial services businesses, which increased in 2006 by \$2.1 billion to \$21.9 billion and decreased in 2005 by \$0.7 billion to \$19.8 billion. The amount we show in CFOA is the total dividend, including the normal dividend as well as any special dividends from excess capital primarily resulting from GECS business sales.

Based on past performance and current expectations, in combination with the financial flexibility that comes with a strong balance sheet and the highest credit ratings, we believe that we are in a sound position to grow dividends, continue making selective investments for long-term growth and, depending on proceeds from a potential business disposition, continue to execute our \$25 billion share repurchase program.

Contractual Obligations

As defined by reporting regulations, our contractual obligations for future payments as of December 31, 2006, follow.

(In billions)	Payments due by period				
	Total	2007	2008– 2009	2010– 2011	2012 and thereafter
Borrowings (note 18)	\$433.0	\$172.2	\$100.6	\$55.1	\$105.1
Interest on borrowings	98.0	17.0	25.0	15.0	41.0
Operating lease obligations (note 5)	6.6	1.3	2.1	1.4	1.8
Purchase obligations ^{(a)(b)}	72.0	47.0	15.0	7.0	3.0
Insurance liabilities (note 19) ^(c)	24.0	2.0	7.0	4.0	11.0
Other liabilities ^(d)	68.0	21.0	6.0	4.0	37.0

(a) Included all take-or-pay arrangements, capital expenditures, contractual commitments to purchase equipment that will be classified as equipment leased to others, software acquisition/license commitments, contractual minimum programming commitments and any contractually required cash payments for acquisitions.

(b) Excluded funding commitments entered into in the ordinary course of business by our financial services businesses. Further information on these commitments and other guarantees is provided in note 29.

(c) Included guaranteed investment contracts, structured settlements and single premium immediate annuities based on scheduled payouts, as well as those contracts with reasonably determinable cash flows such as deferred annuities, universal life, term life, long-term care, whole life and other life insurance contracts.

(d) Included an estimate of future expected funding requirements related to our pension and postretirement benefit plans. Because their future cash outflows are uncertain, the following non-current liabilities are excluded from the table above: deferred taxes, derivatives, deferred revenue and other sundry items. See notes 21 and 27 for further information on certain of these items.

Off-Balance Sheet Arrangements

Before 2003, we executed securitization transactions using entities sponsored by us and by third parties. Subsequently, we only have executed securitization transactions with third parties in the asset-backed commercial paper and term markets and we consolidated those we sponsored. Securitization entities held receivables secured by a variety of high-quality assets totaling \$59.9 billion at December 31, 2006, down \$1.9 billion during the year. Off-balance sheet securitization entities held \$48.2 billion of that total, up \$4.4 billion during the year. The remainder, in the consolidated entities we sponsored, decreased \$6.3 billion during 2006, reflecting collections. We have entered into various credit enhancement positions with these securitization entities, including overcollateralization, liquidity and credit support agreements and guarantee and reimbursement contracts. We have provided for our best estimate of the fair value of estimated losses on such positions, \$27 million at December 31, 2006.

Debt Instruments, Guarantees and Covenants

The major debt rating agencies routinely evaluate the debt of GE, GECS and GE Capital, the major borrowing affiliate of GECS. These agencies have given the highest debt ratings to GE and GE Capital (long-term rating AAA/Aaa; short-term rating A-1+/P-1). One of our strategic objectives is to maintain these ratings, as they serve to lower our cost of funds and to facilitate our access to a variety of lenders. We manage our businesses in a fashion that is consistent with maintaining these ratings.

GE, GECS and GE Capital have distinct business characteristics that the major debt rating agencies evaluate both quantitatively and qualitatively.

Quantitative measures include:

- Earnings and profitability, revenue growth, the breadth and diversity of sources of income and return on assets,
- Asset quality, including delinquency and write-off ratios and reserve coverage,
- Funding and liquidity, including cash generated from operating activities, leverage ratios such as debt-to-capital, market access, back-up liquidity from banks and other sources, composition of total debt and interest coverage, and
- Capital adequacy, including required capital and tangible leverage ratios.

Qualitative measures include:

- Franchise strength, including competitive advantage and market conditions and position,
- Strength of management, including experience, corporate governance and strategic thinking, and
- Financial reporting quality, including clarity, completeness and transparency of all financial performance communications.

GE Capital's ratings are supported contractually by a GE commitment to maintain the ratio of earnings to fixed charges at a specified level as described below.

During 2006, GECS paid \$5.7 billion of special dividends to GE, of which \$3.2 billion and \$2.5 billion, respectively, were funded by the proceeds of the sale of GE Insurance Solutions and from the Genworth secondary public offerings.

During 2006, GECS and GECS affiliates issued \$82 billion of senior, unsecured long-term debt and \$2 billion of subordinated debt. This debt was both fixed and floating rate and was issued to institutional and retail investors in the U.S. and 18 other global markets. Maturities for these issuances ranged from one to 60 years. We used the proceeds primarily for repayment of maturing long-term debt, but also to fund acquisitions and organic growth. We anticipate that we will issue approximately \$75 billion of additional long-term debt during 2007. The ultimate amount we issue will depend on our needs and on the markets.

We target a ratio for commercial paper not to exceed 35% of outstanding debt based on the anticipated composition of our assets and the liquidity profile of our debt. GE Capital is the most widely held name in global commercial paper markets.

We believe that alternative sources of liquidity are sufficient to permit an orderly transition from commercial paper in the unlikely event of impaired access to those markets. Funding sources on which we would rely would depend on the nature of such a hypothetical event, but include \$59.9 billion of contractually committed lending agreements with 75 highly-rated global banks and investment banks. Total credit lines extending beyond one year increased \$2.7 billion to \$59.8 billion at December 31, 2006. See note 18.

Beyond contractually committed lending agreements, other sources of liquidity include medium and long-term funding, monetization, asset securitization, cash receipts from our lending and leasing activities, short-term secured funding on global assets and potential sales of other assets.

PRINCIPAL DEBT CONDITIONS are described below.

The following conditions relate to GE and GECS:

- Swap, forward and option contracts are required to be executed under master-netting agreements containing mutual downgrade provisions that provide the ability of the counterparty to require assignment or termination if the long-term credit rating of either GE or GECS were to fall below A-/A3. Had this provision been triggered at December 31, 2006, we could have been required to disburse \$2.9 billion.
- If GE Capital's ratio of earnings to fixed charges, which was 1.64:1 at the end of 2006, were to deteriorate to 1.10:1, GE has committed to contribute capital to GE Capital. GE also guaranteed certain issuances of GECS subordinated debt having a face amount of \$0.8 billion and \$1.0 billion at December 31, 2006 and 2005, respectively.

The following conditions relate to consolidated, liquidating securitization entities:

- If the short-term credit rating of GE Capital or certain consolidated, liquidating securitization entities discussed further in note 28 were to be reduced below A-1/P-1, GE Capital would be required to provide substitute liquidity for those entities or provide funds to retire the outstanding commercial paper. The maximum net amount that GE Capital would be required to provide in the event of such a downgrade is determined by contract, and amounted to \$8.0 billion at January 1, 2007. Amounts related to non-consolidated SPEs were \$0.6 billion.
- Under terms of other agreements in effect at December 31, 2006, specified downgrades in the credit ratings of GE Capital could cause us to provide up to \$1.1 billion of funding.

One group of consolidated SPEs holds high quality investment securities funded by the issuance of guaranteed investment contracts (GICs). If the long-term credit rating of GE Capital were to fall below AA-/Aa3 or its short-term credit rating were to fall below A-1+/P-1, GE Capital could be required to provide up to \$4.7 billion of capital to such entities.

In our history, we have never violated any of the above conditions either at GE, GECS or GE Capital. We believe that under any reasonable future economic developments, the likelihood that any such arrangements could have a significant effect on our operations, cash flows or financial position is remote.

Critical Accounting Estimates

Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For all of these estimates, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Also see note 1, Summary of Significant Accounting Policies, which discusses accounting policies that we have selected from acceptable alternatives.

LOSSES ON FINANCING RECEIVABLES are recognized when they are incurred, which requires us to make our best estimate of probable losses inherent in the portfolio. Such estimate requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of specific customers and market sectors, collateral values, and the present and expected future levels of interest rates. Our risk management process, which includes standards and policies for reviewing major risk exposures and concentrations, ensures that relevant data are identified and considered either for individual loans or leases, or on a portfolio basis, as appropriate.

Our lending and leasing experience and the extensive data we accumulate and analyze facilitate estimates that have proven reliable over time. Our actual loss experience was in line with expectations for 2006, 2005 and 2004. While prospective losses depend to a large degree on future economic conditions, we do not anticipate significant adverse credit development in 2007.

Further information is provided in the Financial Resources and Liquidity — Financing Receivables section, the Asset Impairment section that follows and in notes 1, 13 and 14.

REVENUE RECOGNITION ON LONG-TERM AGREEMENTS to provide product services (product services agreements) requires estimates of profits over the multiple-year terms of such agreements, considering factors such as the frequency and extent of future monitoring, maintenance and overhaul events; the amount of personnel, spare parts and other resources required to perform the services; and future billing rate and cost changes. We routinely review estimates under product services agreements and regularly revise them to adjust for changes in outlook. We also regularly assess customer credit risk inherent in the carrying amounts of receivables and contract costs and estimated earnings, including the risk that contractual penalties may not be sufficient to offset our accumulated investment in the event of customer termination. We gain insight into future utilization and cost trends, as well as credit risk, through our knowledge of the installed base of equipment and the close interaction with our customers that comes with supplying critical services and parts over extended periods. Revisions that affect a product services agreement's total estimated profitability result in an immediate adjustment of earnings. We provide for probable losses.

Carrying amounts for product services agreements in progress at December 31, 2006 and 2005, were \$5.6 billion and \$4.4 billion, respectively, and are included in the line, "Contract costs and estimated earnings" in note 17. Adjustments to earnings resulting from revisions to estimates on product services agreements have been insignificant for each of the years in the three-year period ended December 31, 2006.

Further information is provided in note 1.

ASSET IMPAIRMENT assessment involves various estimates and assumptions as follows:

INVESTMENTS. We regularly review investment securities for impairment based on both quantitative and qualitative criteria that include the extent to which cost exceeds market value, the duration of that market decline, our intent and ability to hold to maturity or until forecasted recovery, and the financial health of and specific prospects for the issuer. We perform comprehensive market research and analysis and monitor market conditions to identify potential impairments.

Further information about actual and potential impairment losses is provided in the Financial Resources and Liquidity—Investment Securities section and in notes 1 and 10.

LONG-LIVED ASSETS. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which undiscounted cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We derive the required undiscounted cash flow estimates from our historical experience and our internal business plans. To determine fair value, we use our internal cash flow estimates discounted at an appropriate interest rate, quoted market prices when available and independent appraisals, as appropriate.

Commercial aircraft are a significant concentration of assets in Infrastructure, and are particularly subject to market fluctuations. Therefore, we test recoverability of each aircraft in our operating lease portfolio at least annually. Additionally, we perform quarterly evaluations in circumstances such as when aircraft are re-leased, current lease terms have changed or a specific lessee's credit standing changes. We consider market conditions, such as the global shortage of commercial aircraft in 2006. Estimates of future rentals and residual values are based on historical experience and information received routinely from independent appraisers. Estimated cash flows from future leases are reduced for expected downtime between leases and for estimated technical costs required to prepare aircraft to be redeployed. Fair value used to measure impairment is based on current market values from independent appraisers.

We recognized impairment losses on our operating lease portfolio of commercial aircraft of \$0.1 billion and \$0.3 billion in 2006 and 2005, respectively. In addition to these impairment charges relating to operating leases, provisions for losses on financing receivables related to commercial aircraft were insignificant in 2006 and \$0.2 billion in 2005, primarily related to Northwest Airlines Corporation (Northwest Airlines).

Certain of our commercial aviation customers are operating under bankruptcy protection while they implement steps to return to profitable operations with a lower cost structure. At December 31, 2006, our largest exposures to carriers operating in bankruptcy were to Delta Air Lines, Inc., \$1.9 billion, and Northwest Airlines, \$1.1 billion. Our financial exposures to these carriers are substantially secured by various Boeing, Airbus and Bombardier aircraft and operating equipment.

Further information on impairment losses and our exposure to the commercial aviation industry is provided in the Operations—Overview section and in notes 10, 15 and 29.

REAL ESTATE. We regularly review our real estate investment portfolio for impairment or when events or circumstances indicate that the related carrying amounts may not be recoverable. Our portfolio is diversified, both geographically and by asset type. However, the global real estate market is subject to periodic cycles that can cause significant fluctuations in market values. While the current estimated value of our Commercial Finance Real Estate investments exceeds our carrying value by about \$3.0 billion, the same as last year, downward cycles could adversely affect our ability to realize these gains in an orderly fashion in the future and may necessitate recording impairments.

GOODWILL AND OTHER IDENTIFIED INTANGIBLE ASSETS. We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Determining whether an impairment has occurred requires valuation of the respective reporting unit, which we estimate using a discounted cash flow method. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data.

If this analysis indicates goodwill is impaired, measuring the impairment requires a fair value estimate of each identified tangible and intangible asset. In this case, we supplement the cash flow approach discussed above with independent appraisals, as appropriate.

We test other identified intangible assets with defined useful lives and subject to amortization by comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. We test intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows.

Further information is provided in the Financial Resources and Liquidity—Intangible Assets section and in notes 1 and 16.

PENSION ASSUMPTIONS are significant inputs to the actuarial models that measure pension benefit obligations and related effects on operations. Two assumptions—discount rate and expected return on assets—are important elements of plan expense and asset/liability measurement. We evaluate these critical assumptions at least annually on a plan and country-specific basis. We evaluate other assumptions involving demographic factors, such as retirement age, mortality and turnover periodically, and update them to reflect our experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

Accumulated and projected benefit obligations are expressed as the present value of future cash payments. We discount those cash payments using the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to the payment of benefits. Lower discount rates increase present values and subsequent-year pension expense; higher discount rates decrease present values and subsequent-year pension expense.

To reflect market interest rate conditions, we increased our discount rate for principal pension plans at December 31, 2006, from 5.50% to 5.75% and reduced the discount rate at December 31, 2005, from 5.75% to 5.50%.

To determine the expected long-term rate of return on pension plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. Assets in our principal pension plans earned 16.7% in 2006, and had average annual earnings of 9.2%, 10.0% and 12.6% per year in the five, 10 and 25-year periods ended December 31, 2006, respectively. We believe that these results, in connection with our current and expected asset allocations, support our assumed long-term return of 8.5% on those assets.

Sensitivity to changes in key assumptions for our principal pension plans follows.

- Discount rate—A 25 basis point increase in discount rate would decrease pension cost in the following year by \$0.2 billion.
- Expected return on assets—A 50 basis point increase in the expected return on assets would decrease pension cost in the following year by \$0.2 billion.

Further information on our pension plans is provided in the Operations—Overview section and in note 7.

INCOME TAXES. Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions. We review our tax positions quarterly and adjust the balances as new information becomes available. Deferred income tax assets represent amounts available to

reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. We use our historical experience and our short and long-range business forecasts to provide insight. Further, our global and diversified business portfolio gives us the opportunity to employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. Amounts recorded for deferred tax assets related to non-U.S. net operating losses, net of valuation allowance were \$2.0 billion and \$1.4 billion at December 31, 2006 and 2005, respectively. Such year-end 2006 amounts are expected to be fully recoverable within the applicable statutory expiration periods. To the extent we believe it is more likely than not that a deferred tax asset will not be recovered, a valuation allowance is established.

Further information on income taxes is provided in the Operations—Overview section and in notes 8 and 21.

DERIVATIVES AND HEDGING. We use derivatives to manage a variety of risks, including risks related to interest rates, foreign exchange and commodity prices. Accounting for derivatives as hedges requires that, at inception and over the term of the arrangement, the hedged item and related derivative meet the requirements for hedge accounting. The rules and interpretations related to derivatives accounting are complex. Failure to apply this complex guidance correctly will result in all changes in the fair value of the derivative being reported in earnings, without regard to the offsetting changes in the fair value of the hedged item. The accompanying financial statements reflect the consequences of loss of hedge accounting for certain positions.

In evaluating whether a particular relationship qualifies for hedge accounting, we first determine whether the relationship meets the strict criteria to qualify for exemption from ongoing effectiveness testing. For a relationship that does not meet these criteria, we test effectiveness at inception and quarterly thereafter by determining whether changes in the fair value of the derivative offset, within a specified range, changes in the fair value of the hedged item. This test is conducted on a cumulative basis each reporting period. If fair value changes fail this test, we discontinue applying hedge accounting to that relationship prospectively. Fair values of both the derivative instrument and the hedged item are calculated using internal valuation models incorporating market-based assumptions, subject to third-party confirmation.

At December 31, 2006, derivative assets and liabilities were \$2.2 billion and \$2.9 billion, respectively. Further information about our use of derivatives is provided in notes 18, 23 and 27.

OTHER LOSS CONTINGENCIES are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will materially exceed the recorded provision. Contingent liabilities are often resolved over long time periods. Estimating probable losses requires analysis of multiple forecasts that often depend on judgments about potential actions by third parties such as regulators.

Further information is provided in notes 20 and 29.

Other Information

New Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued two related standards that address accounting for income taxes: FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, and FASB Staff Position (FSP) FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*. Among other things, FIN 48 requires application of a "more likely than not" threshold to the recognition and derecognition of tax positions and that changes related to prior years' tax positions be recognized in the quarter of change. FSP FAS 13-2 requires a recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows relating to income taxes generated by the leveraged lease. Both new standards became effective for us on January 1, 2007. The FASB is currently engaged in a project to provide implementation guidance on FIN 48. While the effects of FIN 48 will depend somewhat upon this implementation guidance, we expect the transition effects of these standards to be modest and consist of reclassification of certain liabilities on our Statement of Financial Position and an adjustment to the opening balance of retained earnings. Prior periods will not be restated as a result of these required accounting changes.

In February 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 155, *Accounting for Certain Hybrid Financial Instruments—an Amendment of FASB Statements No. 133 and 140* (SFAS 155). This Statement amended SFAS 133 to include within its scope prepayment features in newly created or acquired retained interests related to securitizations. SFAS 155 will have the effect of changing, from level yield to fair value, the basis on which we recognize earnings on these retained interests. We expect these effects to be immaterial to our 2007 operations.

Selected Financial Data

The facing page is divided into three sections: upper portion—consolidated data; middle portion—GE data that reflect various conventional measurements for such enterprises; and lower portion—GECS data that reflect key information pertinent to financial services businesses.

GE'S TOTAL RESEARCH AND DEVELOPMENT expenditures were \$3.7 billion in 2006, compared with \$3.4 billion and \$3.1 billion in 2005 and 2004, respectively. In 2006, expenditures from GE's own funds were \$3.0 billion compared with \$2.7 billion in 2005. Expenditures funded by customers (mainly the U.S. government) were \$0.7 billion in both 2006 and 2005.

Expenditures reported above reflect the definition of research and development required by U.S. generally accepted accounting principles. For operating and management purposes, we consider amounts spent on product and services technology to include our reported research and development expenditures, but also amounts for improving our existing products and services, and the productivity of our plant, equipment and processes. On this basis, our technology expenditures in 2006 were \$5.7 billion.

GE'S TOTAL BACKLOG of firm unfilled orders at the end of 2006 was \$46.5 billion, an increase of 29% from year-end 2005, reflecting increased demand at Infrastructure. Of the total backlog, \$32.2 billion related to products, of which 63% was scheduled for delivery in 2007. Product services orders, included in this reported backlog for only the succeeding 12 months, were \$14.3 billion at the end of 2006. Orders constituting this backlog may be cancelled or deferred by customers, subject in certain cases to penalties. See the Segment Operations section for further information.

Selected Financial Data

(Dollars in millions; per-share amounts in dollars)	2006	2005	2004	2003	2002
GENERAL ELECTRIC COMPANY AND CONSOLIDATED AFFILIATES					
Revenues	\$163,391	\$147,956	\$134,291	\$113,421	\$111,967
Earnings from continuing operations before accounting changes	20,666	18,661	16,601	14,091	14,629
Earnings (loss) from discontinued operations, net of taxes	163	(1,950)	559	2,057	(616)
Earnings before accounting changes	20,829	16,711	17,160	16,148	14,013
Net earnings	20,829	16,711	17,160	15,561	12,998
Dividends declared	10,675	9,647	8,594	7,759	7,266
Return on average shareowners' equity ^(a)	19.5%	17.8%	17.9%	20.0%	25.2%
Per share					
Earnings from continuing operations before accounting changes—diluted	\$ 1.99	\$ 1.76	\$ 1.59	\$ 1.40	\$ 1.46
Earnings (loss) from discontinued operations—diluted	0.02	(0.18)	0.05	0.20	(0.06)
Earnings before accounting changes—diluted	2.00	1.57	1.64	1.60	1.40
Net earnings—diluted	2.00	1.57	1.64	1.54	1.30
Earnings from continuing operations before accounting changes—basic	1.99	1.77	1.60	1.41	1.47
Earnings (loss) from discontinued operations—basic	0.02	(0.18)	0.05	0.21	(0.06)
Earnings before accounting changes—basic	2.01	1.58	1.65	1.61	1.41
Net earnings—basic	2.01	1.58	1.65	1.55	1.31
Dividends declared	1.03	0.91	0.82	0.77	0.73
Stock price range	38.49–32.06	37.34–32.67	37.75–28.88	32.42–21.30	41.84–21.40
Year-end closing stock price	37.21	35.05	36.50	30.98	24.35
Total assets of continuing operations	697,239	612,255	604,338	503,616	441,550
Total assets	697,239	673,321	750,617	647,834	575,018
Long-term borrowings	260,804	212,281	207,871	170,309	138,570
Shares outstanding—average (in thousands)	10,359,320	10,569,805	10,399,629	10,018,587	9,947,113
Shareowner accounts—average	624,000	634,000	658,000	670,000	655,000
Employees at year end					
United States	155,000	161,000	165,000	155,000	161,000
Other countries	164,000	155,000	142,000	150,000	154,000
Total employees	319,000	316,000 ^(b)	307,000	305,000	315,000
GE DATA					
Short-term borrowings	\$ 2,212	\$ 1,127	\$ 3,409	\$ 2,555	\$ 8,786
Long-term borrowings	9,085	9,081	7,625	8,388	970
Minority interest	5,623	5,806	7,701	1,079	1,028
Shareowners' equity	112,314	109,351	110,908	79,662	63,979
Total capital invested	\$129,234	\$125,365	\$129,643	\$ 91,684	\$ 74,763
Return on average total capital invested ^(a)	18.4%	16.6%	16.2%	18.1%	24.0%
Borrowings as a percentage of total capital invested ^(a)	8.7%	8.1%	9.0%	11.9%	13.0%
Working capital ^(a)	\$ 7,566	\$ 8,399	\$ 8,328	\$ 5,282	\$ 3,821
GECS DATA					
Revenues	\$ 63,602	\$ 57,551	\$ 52,704	\$ 43,513	\$ 38,456
Earnings from continuing operations before accounting changes	10,495	9,527	8,169	6,256	4,122
Earnings (loss) from discontinued operations, net of taxes	163	(1,950)	559	2,057	(616)
Earnings before accounting changes	10,658	7,577	8,728	8,313	3,506
Net earnings	10,658	7,577	8,728	7,974	2,491
Shareowner's equity	54,097	50,812	54,379	45,790	37,202
Total borrowings	426,279	362,069	355,501	316,593	267,014
Ratio of debt to equity at GE Capital	7.52:1	7.09:1	6.45:1	6.62:1	6.48:1
Total assets	\$564,668	\$540,584	\$618,614	\$554,877	\$489,602

Transactions between GE and GECS have been eliminated from the consolidated information.

(a) Indicates terms are defined in the Glossary.

(b) Excludes employees of Genworth in 2005 as a result of the third quarter deconsolidation.